

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
INDEPENDENCE, IOWA

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2004

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# INDEPENDENCE COMMUNITY SCHOOL DISTRICT

## OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2003 Election)		
Martin Brown	President	2004
Kevin Greenley	Vice President	2005
Robert Reiff	Board Member	2004
Dawnye Sturtz	Board Member	2005
Daryl Roberts	Board Member	2003
<u>Board of Education</u>		
(After September 2003 Election)		
Kevin Greenley	President	2005
Robert Reiff	Vice President	2004
Martin Brown	Board Member	2004
Dawnye Sturtz	Board Member	2005
Shelly Whited	Board Member	2006
<u>School Officials</u>		
Devin Embray	Superintendent	2004
Brian Bartz	District Secretary/Treasurer	2004
Swisher & Cohrt	Attorney	Indefinite

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education of  
Independence Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Independence Community School District, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Independence Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated August 20, 2004 on our consideration of Independence Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 6 through 12 and 44 through 46 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Independence Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa  
August 20, 2004

# MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Independence Community School District's annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year ending on June 30, 2004. This analysis will focus on the District's financial performance as a whole for the fiscal year 2004.

Please read this analysis in conjunction with the District's financial statements, which immediately follow this section.

## Financial Highlights

- ◆ General Fund revenue increased from \$11,356,974 in fiscal 2003 to \$11,443,945 in fiscal 2004 while General Fund expenditures increased from \$11,294,752 in fiscal 2003 to \$11,636,128 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from \$1,217,499 in fiscal 2003 to \$1,028,461 in fiscal 2004 a decrease of 16% from the prior year.
- ◆ The decrease in the General Fund balance was due to increased costs in insurance and utilities and less income from the state.

## ◆ Overview of Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- ◆ The first two statements are District-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- ◆ The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- ◆ The statements for governmental funds explain how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- ◆ The statements for proprietary funds offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- ◆ The statements for fiduciary funds provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

## District Wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two District-wide statements report the District's net assets and how they have changed. Net assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position.

- ◆ Over time, increases or decreases in the District's net assets are an indicator of whether the District's financial position is improving or deteriorating, respectively.
- ◆ To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base, the condition of school buildings and facilities and student enrollment trends.

In the District-wide financial statements, the District's activities are divided into two categories:

- ◆ **Governmental funds:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finances most of these activities.
- ◆ **Business-type funds:** The District charges fees to help cover the cost of certain services it provides. The District school nutrition program would be included here.

## Fund Financial Statements

The fund financial statements, included with this report, provide more detailed information about the District's funds, focusing on its most significant or major funds. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Funds do not focus on the District as a whole.

- ◆ Some funds are required by state law and by bond covenants.
- ◆ The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

Independence Community School District has three types of funds:

- ◆ **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.
- ◆ The District's governmental funds include the General Fund; Special Revenue Funds, Debt Service Fund and the Capital Projects Fund.
- ◆ **Proprietary funds:** Services for which the District charges a fee are generally reported in the proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.
  - ◆ The District's enterprise fund, one type of proprietary fund, is the same as its business-type activities but provide more detail and additional information, such as cash flow. The District currently has one enterprise fund, the school nutrition program.

- ◆ **Fiduciary funds:** The District is trustee, or fiduciary, for assets that belong to others. These funds include Private -purpose Trust and Agency funds.
  - ◆ **Private-Purpose Trust Fund:** The District accounts for outside donations for specific purposes in this fund.
  - ◆ **Agency Fund:** These funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from District-wide financial statements because it cannot use these assets to finance its operations.

## Financial Analysis of the District as a Whole

**Net assets:** Figure A-1 provides a summary of the District's net assets for the year ended June 30, 2004. The districts combined net assets were slightly higher on June 30, 2004 than they were the year before, increasing to \$ 6,166,174. (see figure A1)

*Condensed Statement of Net Assets-figure A1*

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change
	2003	2004	2003	2004	2003	2004	2003-04
Current and other assets	\$7,351,632	\$7,689,422	\$128,139	\$89,458	\$7,479,771	\$7,778,880	4.0%
Capital assets	\$4,449,064	\$4,406,087	\$63,847	\$61,919	\$4,512,911	\$4,468,006	-1.0%
<b>Total Assets</b>	<b>\$11,800,696</b>	<b>\$12,095,509</b>	<b>\$191,986</b>	<b>\$151,377</b>	<b>\$11,992,682</b>	<b>\$12,246,886</b>	<b>2.1%</b>
Long-term debt outstanding	\$585,000	\$490,000			\$585,000	\$490,000	-16.2%
Other liabilities	\$5,310,327	\$5,557,157	\$35,958	\$33,555	\$5,346,285	\$5,590,712	4.6%
<b>Total liabilities</b>	<b>\$5,895,327</b>	<b>\$6,047,157</b>	<b>\$35,958</b>	<b>\$33,555</b>	<b>\$5,931,285</b>	<b>\$6,080,712</b>	<b>2.5%</b>
Net Assets							
Invested in capital assets, net of related debt	\$3,864,064	\$3,916,087	\$63,847	\$61,919	\$3,927,911	\$3,978,006	1.3%
Restricted	\$366,533	\$713,139			\$366,533	\$713,139	94.6%
Unrestricted	\$1,674,722	\$1,419,126	\$92,181	\$55,903	\$1,766,953	\$1,475,029	-16.5%
<b>TOTAL NET ASSETS</b>	<b>\$5,905,369</b>	<b>\$6,048,352</b>	<b>\$156,028</b>	<b>\$117,822</b>	<b>\$6,061,397</b>	<b>\$6,166,174</b>	<b>1.7%</b>



**Changes in net assets:** Figure A-2 shows the changes in net assets for the year ending June 30, 2004.

*Changes in Net Assets from Operating Results- figure A2*

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change
	2003	2004	2003	2004	2003	2004	2003-04%
<b>Revenues</b>							
Program Revenues							
Charges for services	\$ 1,048,579	\$ 1,108,557	\$ 284,179	\$ 283,943	\$ 1,332,758	\$ 1,392,500	4%
Operating Grants & Contributions	\$ 1,612,753	\$ 1,772,411	\$ 262,988	\$ 243,000	\$ 1,875,741	\$ 2,015,411	7%
Capital Grants & Contributions	\$	\$ 87,758			\$	\$ 87,758	100%
General Revenues							
Property taxes	\$ 3,529,825	\$ 3,543,262			\$ 3,529,825	\$ 3,543,262	1%
Unrestricted state grants	\$ 5,589,395	\$ 5,534,398			\$ 5,589,395	\$ 5,534,398	-1%
Other	\$ 537,181	\$ 941,385	\$ 931	\$ 464	\$ 538,112	\$ 941,849	75%
<b>Total Revenues</b>	<b>\$ 12,317,733</b>	<b>\$ 12,987,771</b>	<b>\$ 548,098</b>	<b>\$ 527,407</b>	<b>\$ 12,865,831</b>	<b>\$ 13,515,178</b>	<b>5%</b>
<b>Expenses</b>							
Instruction	\$ 8,393,753	\$ 8,920,057			\$ 8,393,753	\$ 8,920,057	6%
Support Services	\$ 3,005,696	\$ 3,072,456			\$ 3,005,696	\$ 3,072,456	2%
Non-instructional Programs	\$ 4,594	\$ 4,220	\$ 546,913	\$ 565,613	\$ 551,507	\$ 569,833	3%
Other	\$ 883,746	\$ 848,055			\$ 883,746	\$ 848,055	-4%
<b>Total Expenses</b>	<b>\$ 12,287,789</b>	<b>\$ 12,844,788</b>	<b>\$ 546,913</b>	<b>\$ 565,613</b>	<b>\$ 12,834,702</b>	<b>\$ 13,410,401</b>	<b>4%</b>
Excess (deficiency) before Special item	\$ 29,944	\$ 142,983	\$ 1,185	\$ (38,206)	\$ 31,129	\$ 104,777	237%
Special item description	\$				\$	\$ -	
<b>Increase (decrease) in net assets</b>	<b>\$ 29,944</b>	<b>\$ 142,983</b>	<b>\$ 1,185</b>	<b>\$ (38,206)</b>	<b>\$ 31,129</b>	<b>\$ 104,777</b>	<b>237%</b>

Property tax and unrestricted state grants account for 67% of the District's total revenue. The District's expenses primarily relate to instruction and support services, which account for 89% of the total expenses.

## Governmental Activities

Revenues for governmental activities were \$ 12,987,771 and expenses were \$ 12,844,788. In a very difficult budget year, the District did a remarkable job of controlling expenditures to provide additional funds for upcoming years.

The following table presents the total and net cost of the District's major governmental activities; instruction, support services, non-instructional programs and other expenses.

## Figure A-3 Total Net Cost of Governmental Activities

Net Cost of Governmental Activities- figure A3

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2003	2004	2003-04%	2003	2004	2003-04%
Instruction	\$ 8,393,753	\$ 8,920,057	6%	\$ 6,258,545	\$ 6,822,281	9%
Support Services	\$ 3,005,696	\$ 3,072,456	2%	\$ 2,965,154	\$ 2,743,802	-7%
Non-instructional programs	\$ 4,594	\$ 4,220	-8%	\$ (63)	\$ (27)	57%
Other	\$ 883,746	\$ 848,055	-4%	\$ 402,821	\$ 310,006	-23%
<b>TOTAL</b>	<b>\$ 12,287,789</b>	<b>\$ 12,844,788</b>	<b>5%</b>	<b>\$ 9,626,457</b>	<b>\$ 9,876,062</b>	<b>3%</b>

- ◆ The cost financed by users of District's programs was \$ 1,108,557.
- ◆ Federal and state government subsidized certain programs with operating grants and contributions totaling \$ 1,772,411.
- ◆ The net cost of governmental activities was financed with \$ 3,543,262 in property tax, \$ 5,534,398 in state foundation aid and \$ 941,385 in other income.

## Business -Type Activities

Revenues of the District's business-type activities were \$ 527,407 and expenses were \$ 565,613. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income.

## Financial Analysis of the District's Funds

As previously noted, the Independence Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The strong financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$ 1,675,781, an increase from last year's ending fund balance of \$ 1,555,470.

## Governmental Fund Highlights

- ◆ The District's General Fund financial position is the product of many factors. The Instructional Support Levy, increased taxes and grants resulted in increased revenues. The increase in revenues was coupled with a less than usual increase in General Fund expenditures, due to controlled expenditures.
- ◆ The General Fund balance decreased from \$1,217,499 to \$ 1,028,461, for the 2003-04 fiscal year.
- ◆ The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$152,766 to \$144,277, for the 2003-2004 fiscal year.

## Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$ 156,028 at June 30, 2003 to \$117,822 at June 30, 2004.

## Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following the required public notice and hearing for all funds, except its private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds; budgets for the General Fund and Major Special Revenue Funds are not presented on the budgetary comparison pages.

### Legal Budgetary Highlights

The District's total actual receipts were \$ 24,909 less than the total budgeted receipts, a variance of .18 percent.

Total expenditures were less than budgeted due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at an amount that exceeds projected expenditures for the coming fiscal but is less than the maximum allowed by law. The District then manages or controls General Fund spending through a line-item budget at the building level. As a result the District's certified budget should always exceed the actual expenditures during the fiscal year.

In spite of the District's budgetary practice, the certified budget was exceeded in the disbursements areas of the non-instructional programs and other expenditures due to the timing of disbursements paid at year-end, without sufficient time to amend the certified budget.

## Capital Assets and Debt Administration

### Capital Assets

On June 30, 2004, the District had invested \$ 4.4 million, net of accumulated depreciation in a broad range of capital assets, including land, buildings, athletic facilities, transportation equipment, computers, and audio-visual equipment. (See Figure A-4) More detailed information about capital assets is available in the financial statements. Depreciation expense for the year was \$ 246,453.

Excluding depreciation, the District has \$9.5 million in capital assets. Governmental Funds account for \$9.35 million with the remainder of \$190,485 in the School Nutrition Fund

**Figure A-4**  
**Capital Assets, Net of Depreciation**

*Capital Assets (net of depreciation)- figure A4*

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Percentage
	2003	2004	2003	2004	2003	2004	2003-04
Land	\$ 595,980	\$ 595,980			\$ 595,980	\$ 595,980	0%
Improvements	\$ 402,821	\$ 391,733			\$ 402,821	\$ 391,733	-2.8%
Buildings	\$ 3,180,098	\$ 3,167,300			\$ 3,180,098	\$ 3,167,300	-.4%
Construction	\$ 24,764				\$ 24,764		-100%
Equipment & Furniture	\$ 245,401	\$ 251,074	\$ 63,847	\$ 61,919	\$ 309,248	\$ 312,993	1.2%
<b>TOTAL</b>	<b>\$ 4,449,064</b>	<b>\$ 4,406,087</b>	<b>\$ 63,847</b>	<b>\$ 61,919</b>	<b>\$ 4,512,911</b>	<b>\$ 4,468,006</b>	<b>-1%</b>

## Long-Term Debt

On June 30, 2004, the District had \$490,000 in general obligation debt outstanding. This represents a decrease of 16% from the prior year. More detailed information about District's long-term liabilities is available in Note 5 to the financial statements.

**Figure A-5  
Total School District**

	2003	2004	Change
General obligation bonds	585,000	490,000	-95,000

## Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- ◆ State aid payments remain a concern. The governor issued an across the board budget cut of 2.3% in Sept. 2003. As long as the state financial picture remains bleak, future state cuts cannot be ruled out.
- ◆ The District has had declining enrollment the last nine years. Unless there is a movement of families into the District the trend of declining enrollment is expected to continue the next five years.
- ◆ The District will negotiate a new labor contract in 2005 with its employees. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and reserve fund balance.

## Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brian Bartz, Director of Finance, Independence Community School District, 1207 1<sup>st</sup> Street West, Independence, Iowa 50644.

## Basic Financial Statements

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2004

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 2,971,635	\$ 56,233	\$ 3,027,868
Receivables:			
Property tax:			
Current year	96,163	-	96,163
Succeeding year	3,048,504	-	3,048,504
Income surtax	457,607	-	457,607
Accrued interest	1,268	-	1,268
Accounts	433	643	1,076
Due from other governments	266,186	-	266,186
Inventories	-	32,582	32,582
Restricted ISCAP assets (note 3):			
Investments	847,569	-	847,569
Accrued interest receivable	57	-	57
Capital assets, net of accumulated depreciation (note 4)	4,406,087	61,919	4,468,006
Total assets	12,095,509	151,377	12,246,886
Liabilities			
Accounts payable	361,287	380	361,667
Salaries and benefits payable	1,183,173	33,175	1,216,348
Accrued interest payable	1,123	-	1,123
ISCAP warrants payable (note 3)	843,000	-	843,000
ISCAP accrued interest payable (note 3)	70	-	70
Deferred revenue:			
Succeeding year property tax	3,048,504	-	3,048,504
Early retirement payable (note 5)	120,000	-	120,000
Long-term liabilities (note 5):			
Portion due within one year:			
Bonds payable	100,000	-	100,000
Portion due after one year:			
Bonds payable	390,000	-	390,000
Total liabilities	6,047,157	33,555	6,080,712

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2004

	Governmental Activities	Business-type Activities	Total
Net Assets			
Invested in capital assets, net of related debt	\$ 3,916,087	\$ 61,919	\$ 3,978,006
Restricted for:			
State grants	15,996	-	15,996
Physical plant and equipment levy	144,277	-	144,277
Other special revenue purposes	136,831	-	136,831
Debt service	45,429	-	45,429
Capital projects	370,606	-	370,606
Unrestricted	1,419,126	55,903	1,475,029
Total net assets	\$ <u>6,048,352</u>	\$ <u>117,822</u>	\$ <u>6,166,174</u>

See notes to financial statements.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
		Services		
Governmental Activities:				
Instruction:				
Regular instruction	\$ 5,342,181	\$ 361,330	\$ 448,676	\$ -
Special instruction	2,371,803	271,571	341,554	-
Other instruction	1,206,073	451,603	223,042	-
	<u>8,920,057</u>	<u>1,084,504</u>	<u>1,013,272</u>	<u>-</u>
Support services:				
Student services	357,768	1,420	294,575	-
Instructional staff services	330,864	-	-	-
Administration services	1,027,604	-	-	-
Operation and maintenance of plant services	987,776	2,120	-	-
Transportation services	368,444	16,266	14,273	-
	<u>3,072,456</u>	<u>19,806</u>	<u>308,848</u>	<u>-</u>
Non-instructional programs	<u>4,220</u>	<u>4,247</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	219,770	-	-	87,758
Long-term debt interest and fiscal charges	15,324	-	-	-
AEA flowthrough	450,291	-	450,291	-
Depreciation (unallocated) *	162,670	-	-	-
	<u>848,055</u>	<u>-</u>	<u>450,291</u>	<u>87,758</u>
Total governmental activities	12,844,788	1,108,557	1,772,411	87,758
Business-Type Activities:				
Non-instructional programs:				
Food service operations	<u>565,613</u>	<u>283,943</u>	<u>243,000</u>	<u>-</u>
Total	<u>\$ 13,410,401</u>	<u>\$ 1,392,500</u>	<u>\$ 2,015,411</u>	<u>\$ 87,758</u>



Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (4,532,175)	\$ -	\$ (4,532,175)
(1,758,678)	-	(1,758,678)
(531,428)	-	(531,428)
(6,822,281)	-	(6,822,281)
(61,773)	-	(61,773)
(330,864)	-	(330,864)
(1,027,604)	-	(1,027,604)
(985,656)	-	(985,656)
(337,905)	-	(337,905)
(2,743,802)	-	(2,743,802)
27	-	27
(132,012)	-	(132,012)
(15,324)	-	(15,324)
-	-	-
(162,670)	-	(162,670)
(310,006)	-	(310,006)
(9,876,062)	-	(9,876,062)
-	(38,670)	(38,670)
(9,876,062)	(38,670)	(9,914,732)

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

Functions/Programs

---

General Revenues:

Property tax levied for:

General purposes

Debt service

Capital outlay

Income surtax

Local option sales and services tax

Unrestricted state grants

Unrestricted investment earnings

Other

Total general revenues

Change in net assets

Net assets beginning of year

Net assets end of year

\* = This amount excludes the depreciation that is included  
in the direct expense of the various programs.

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ 3,219,985	\$ -	\$ 3,219,985
112,612	-	112,612
210,665	-	210,665
428,961	-	428,961
469,176	-	469,176
5,534,398	-	5,534,398
33,786	464	34,250
9,462	-	9,462
<u>10,019,045</u>	<u>464</u>	<u>10,019,509</u>
142,983	(38,206)	104,777
<u>5,905,369</u>	<u>156,028</u>	<u>6,061,397</u>
<u>\$ 6,048,352</u>	<u>\$ 117,822</u>	<u>\$ 6,166,174</u>

## INDEPENDENCE COMMUNITY SCHOOL DISTRICT

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2004

	General	Nonmajor Governmental Funds	Total Governmental Funds
	<u>General</u>	<u>Funds</u>	<u>Funds</u>
Assets			
Cash and pooled investments	\$ 2,214,492	\$ 757,143	\$ 2,971,635
Receivables:			
Property tax:			
Current year	82,117	14,046	96,163
Succeeding year	2,564,525	483,979	3,048,504
Income surtax	457,607	-	457,607
Accrued interest	935	333	1,268
Accounts	433	-	433
Due from other governments	184,553	81,633	266,186
Restricted ISCAP assets (note 3):			
Investments	847,569	-	847,569
Accrued interest receivable	57	-	57
	<u>6,352,288</u>	<u>1,337,134</u>	<u>7,689,422</u>
Total assets	\$ 6,352,288	\$ 1,337,134	\$ 7,689,422
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 275,452	\$ 85,835	\$ 361,287
Salaries and benefits payable	1,183,173	-	1,183,173
ISCAP warrants payable (note 3)	843,000	-	843,000
ISCAP accrued interest payable (note 3)	70	-	70
Deferred revenue:			
Succeeding year property tax	2,564,525	483,979	3,048,504
Other	457,607	-	457,607
Early retirement payable (note 5)	-	120,000	120,000
Total liabilities	<u>5,323,827</u>	<u>689,814</u>	<u>6,013,641</u>
Fund balance:			
Reserved for:			
State grants	15,996	-	15,996
Debt service	-	46,552	46,552
Unreserved:			
Reported in nonmajor Special Revenue Funds	-	230,162	230,162
Undesignated	1,012,465	370,606	1,383,071
Total fund balances	<u>1,028,461</u>	<u>647,320</u>	<u>1,675,781</u>
Total liabilities and fund balances	\$ 6,352,288	\$ 1,337,134	\$ 7,689,422

See notes to financial statements.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
June 30, 2004

Total fund balances of governmental funds	\$ 1,675,781
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	4,406,087
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	457,607
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(1,123)
Long-term liabilities, including bonds payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(490,000)</u>
Net assets of governmental activities	<u>\$ 6,048,352</u>
See notes to financial statements.	

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2004

	General	Nonmajor Governmental Funds	Total
Revenues:			
Local sources:			
Local tax	\$ 3,494,333	\$ 973,031	\$ 4,467,364
Tuition	640,397	-	640,397
Other	94,948	508,967	603,915
State sources	6,382,050	509	6,382,559
Federal sources	832,217	87,758	919,975
Total revenues	11,443,945	1,570,265	13,014,210
Expenditures:			
Current:			
Instruction:			
Regular instruction	5,220,514	158,923	5,379,437
Special instruction	2,371,803	-	2,371,803
Other instruction	672,609	477,123	1,149,732
	8,264,926	636,046	8,900,972
Support services:			
Student services	357,768	-	357,768
Instructional staff services	330,864	-	330,864
Administration services	1,023,271	580	1,023,851
Operation and maintenance of plant services	902,130	84,179	986,309
Transportation services	302,658	69,532	372,190
	2,916,691	154,291	3,070,982
Non-instructional programs	4,220	-	4,220
Other expenditures:			
Facilities acquisition	-	360,022	360,022
Long term debt:			
Principal	-	95,000	95,000
Interest and fiscal charges	-	15,557	15,557
AEA flowthrough	450,291	-	450,291
	450,291	470,579	920,870
Total expenditures	11,636,128	1,260,916	12,897,044
Excess (deficiency) of revenues over (under) expenditures	(192,183)	309,349	117,166

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2004

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Other financing sources (uses):			
Compensation for loss of fixed assets	\$ 3,145	\$ -	\$ 3,145
Net change in fund balances	(189,038)	309,349	120,311
Fund balances beginning of year	<u>1,217,499</u>	<u>337,971</u>	<u>1,555,470</u>
Fund balances end of year	<u>\$ 1,028,461</u>	<u>\$ 647,320</u>	<u>\$ 1,675,781</u>

See notes to financial statements.

## INDEPENDENCE COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2004

Net change in fund balances - total governmental funds \$ 120,311

Amounts reported for governmental activities in the statement of activities  
are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the statement of net assets and are allocated over their estimated useful lives as depreciation expense in the statement of activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$	193,474	
Depreciation expense		<u>(236,451)</u>	(42,977)

Certain income surtax not received until several months after the District's fiscal year ends is not considered available revenue in the governmental funds and is deferred. It is, however, recorded as revenue in the statement of activities. (29,584)

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets. 95,000

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

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Change in net assets of governmental activities \$ 142,983

See notes to financial statements.



## INDEPENDENCE COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 June 30, 2004

	Enterprise - School Nutrition	Internal Service - Flexible Benefits
Assets		
Cash and cash equivalents	\$ 56,233	\$ 8,431
Accounts receivable	643	-
Inventories	32,582	-
Capital assets, net of accumulated depreciation	61,919	-
Total assets	<u>151,377</u>	<u>8,431</u>
Liabilities		
Accounts payable	380	-
Salaries and benefits payable	33,175	-
Total liabilities	<u>33,555</u>	<u>-</u>
Net Assets		
Invested in capital assets	61,919	-
Unrestricted	<u>55,903</u>	<u>8,431</u>
Total net assets	<u>\$ 117,822</u>	<u>\$ 8,431</u>

See notes to financial statements.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
Year Ended June 30, 2004

	Enterprise - School Nutrition	Internal Service - Flexible Benefits
Operating revenues:		
Local sources:		
Charges for services	\$ 283,943	\$ 52,960
Operating expenses:		
Non-instructional programs:		
Non-instructional operations:		
Salaries	209,403	-
Benefits	67,189	-
Purchased services	1,213	-
Supplies	277,115	-
Depreciation	10,002	-
Other	691	52,204
	<u>565,613</u>	<u>52,204</u>
Operating income (loss)	<u>(281,670)</u>	<u>756</u>
Non-operating revenues:		
Interest on investments	464	48
State sources	7,618	-
Federal sources	235,382	-
Total non-operating revenues	<u>243,464</u>	<u>48</u>
Change in net assets	(38,206)	804
Net assets beginning of year	<u>156,028</u>	<u>7,627</u>
Net assets end of year	\$ <u><u>117,822</u></u>	\$ <u><u>8,431</u></u>

See notes to financial statements.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended June 30, 2004

	Enterprise - School Nutrition	Internal Service - Flexible Benefits
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 273,863	\$ -
Cash received from miscellaneous operating activities	10,280	52,960
Cash payments to employees for services	(278,219)	(52,204)
Cash payments to suppliers for goods or services	(225,940)	-
Net cash provided by (used in) operating activities	<u>(220,016)</u>	<u>756</u>
Cash flows from non-capital financing activities:		
State grants received	7,618	-
Federal grants received	184,663	-
Net cash provided by non-capital financing activities	<u>192,281</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(7,985)</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>464</u>	<u>48</u>
Net increase (decrease) in cash and cash equivalents	(35,256)	804
Cash and cash equivalents beginning of year	<u>91,489</u>	<u>7,627</u>
Cash and cash equivalents end of year	<u>\$ 56,233</u>	<u>\$ 8,431</u>

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended June 30, 2004

	Enterprise - School Nutrition	Internal Service - Flexible Benefits
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (281,670)	\$ 756
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	10,002	-
Commodities used	50,719	-
Decrease in accounts receivable	198	-
Decrease in inventories	3,138	-
(Decrease) in accounts payable	(776)	-
(Decrease) in salaries and benefits payable	(1,627)	-
Net cash provided by (used in) operating activities	\$ <u>(220,016)</u>	\$ <u>756</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$50,719 of federal commodities.

See notes to financial statements.

## INDEPENDENCE COMMUNITY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 June 30, 2004

	Private Purpose Trust	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Cash and pooled investments	\$ 2,387	\$ 1,102
Accrued interest receivable	13	-
Accounts receivable	-	88
	<hr/>	<hr/>
Total assets	2,400	\$ 1,190
	<hr/>	<hr/>
Liabilities:		
Other payables	-	\$ 1,190
	<hr/>	<hr/>
Net assets:		
Reserved for scholarships	\$ 2,400	
	<hr/>	

See notes to financial statements.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
Year Ended June 30, 2004

	Private Purpose Trust
	<u>Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	\$ 442
Interest	2,554
Refund of prior years expenditures	<u>1,000</u>
Total additions	<u>3,996</u>
Deductions:	
Support services:	
Scholarships awarded	3,157
Transfers to fiscal agent	<u>176,220</u>
Total deductions	<u>179,377</u>
Change in net assets	(175,381)
Net assets beginning of year	<u>177,781</u>
Net assets end of year	\$ <u><u>2,400</u></u>
See notes to financial statements.	

# INDEPENDENCE COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2004

### Note 1. Summary of Significant Accounting Policies

Independence Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Independence, Iowa, and the agricultural territory in Buchanan County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

#### A. Reporting Entity

For financial reporting purposes, Independence Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. Independence Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Buchanan County Assessor's Conference Board.

#### B. Basis of Presentation

District-wide Financial Statements – The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The statement of net assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental fund:

The General Fund is the main operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The District's proprietary enterprise fund is the School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District's proprietary internal service fund is the Flexible Benefits Fund. This fund is used to account for the flexible health and child care benefits program offered by the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements with restrictions of income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.



# INDEPENDENCE COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2004

### Note 1. Summary of Significant Accounting Policies (continued)

#### C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

All proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the statement of net assets and the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in Governmental Funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Current year property tax receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget to the County Auditor by April 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

# INDEPENDENCE COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2004

### Note 1. Summary of Significant Accounting Policies (continued)

#### D. Assets, Liabilities and Fund Equity (continued)

Capital Assets – Capital assets, which include property, furniture, and equipment are reported in the applicable governmental or business-type activities columns in the District-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 5,000
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund Equipment	5,000
Other furniture and equipment	5,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings	50 years
Improvements other than buildings	20 years
Furniture and equipment	5-20 years

Salaries and Benefits Payable – Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, the succeeding year property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation and sick leave for subsequent use. The District's policy is not to reimburse employees for sick leave or vacation. Vacation can only be used by the employee in the year it is earned. The District has no compensated absences liability at June 30, 2004.

Long-term Liabilities – In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Invested in capital assets, net of related debt – In the District-wide statement of net assets, the net asset balance invested in capital assets, net of related debt is equal to the capital assets balances, including restricted capital assets, less accumulated depreciation and the outstanding balances of any bonds, notes, or other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – In the District-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the non-instructional programs and other expenditures functional areas exceeded the amounts budgeted.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

# INDEPENDENCE COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2004

### Note 3. Iowa Schools Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2004 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2004-05A	6/30/2004	6/30/2005	\$ <u>847,569</u>	\$ <u>57</u>	\$ <u>843,000</u>	\$ <u>70</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no ISCAP advance activity in the General Fund for the year ended June 30, 2004.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2004-05A	3.000%	2.463%

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 595,980	\$ -	\$ -	\$ 595,980
Construction in progress	24,764	-	24,764	-
Total capital assets not being depreciated	<u>620,744</u>	<u>-</u>	<u>24,764</u>	<u>595,980</u>
Capital assets being depreciated:				
Buildings	6,508,883	116,162	-	6,625,045
Improvements other than buildings	997,615	36,712	-	1,034,327
Furniture and equipment	1,032,096 *	65,364	-	1,097,460
Total capital assets being depreciated	<u>8,538,594</u>	<u>218,238</u>	<u>-</u>	<u>8,756,832</u>
Less accumulated depreciation for:				
Buildings	3,328,785	128,960	-	3,457,745
Improvements other than buildings	594,794	47,800	-	642,594
Furniture and equipment	786,695 *	59,691	-	846,386
Total accumulated depreciation	<u>4,710,274</u>	<u>236,451</u>	<u>-</u>	<u>4,946,725</u>
Total capital assets being depreciated, net	<u>3,828,320</u>	<u>(18,213)</u>	<u>-</u>	<u>3,810,107</u>
Governmental activities capital assets, net	<u>\$ 4,449,064</u>	<u>\$ (18,213)</u>	<u>\$ 24,764</u>	<u>\$ 4,406,087</u>

\* = The beginning balances of furniture and equipment and accumulated depreciation were increased by \$30,079 to accurately reflect capital assets which were not included in last years reported balances.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 4. Capital Assets (continued)

	Balance Beginning of Year		Increases		Decreases		Balance End of Year
Business-type activities:							
Furniture and equipment	\$ 182,411	*	\$ 8,074	\$	-	\$	190,485
Less accumulated depreciation	118,564	*	10,002		-		128,566
Business-type activities capital assets, net	\$ <u>63,847</u>		\$ <u>(1,928)</u>	\$	<u>-</u>	\$	<u>61,919</u>

\* = The beginning balances of furniture and equipment and accumulated depreciation were increased by \$54,501 to accurately reflect capital assets which were not included in last years reported balances.

Depreciation expense was charged by the District to the following functions:

Governmental activities:

Instruction:

Regular	\$ 1,667
Other	17,418

Support services:

Administration	3,753
Operation and maintenance of plant services	1,467
Transportation	49,476
	<u>73,781</u>

Unallocated depreciation	<u>162,670</u>
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Total governmental activities depreciation expense	\$ <u>236,451</u>
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Business-type activities:

Food service operations	\$ <u>10,002</u>
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# INDEPENDENCE COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2004

### Note 5. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	General Obligation Bonds
Balance beginning of year	\$ 585,000
Additions	-
Reductions	<u>95,000</u>
Balance end of year	<u>\$ 490,000</u>
Due within one year	<u>\$ 100,000</u>

### Early Retirement

The District offers a voluntary early retirement plan to its certified employees and support staff. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible certified employee is equal to either 60% of the employee's current base salary plus any earned career increments, subject to a maximum of \$24,000 per individual, or single health insurance coverage through age 65, subject to a maximum District contribution of \$200 per month. The early retirement incentive for each eligible support staff employee is equal to either 50% of the employee's current salary, less any overtime or other additional pay, or single health insurance coverage through age 65, subject to a maximum District contribution of \$100 per month. Early retirement benefits paid during the year ended June 30, 2004, totaled \$73,535. The cost of early retirement payments expected to be liquidated currently is recorded as a liability of the Special Revenue, Management Levy Fund.

### Bonds Payable

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rate	Principal	Interest	Total
2005	2.75 %	\$ 100,000	\$ 12,788	\$ 112,788
2006	2.75	100,000	10,037	110,037
2007	2.75	100,000	7,288	107,288
2008	2.75	105,000	4,537	109,537
2009	2.75	<u>85,000</u>	<u>1,581</u>	<u>86,581</u>
		<u>\$ 490,000</u>	<u>\$ 36,231</u>	<u>\$ 526,231</u>



INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 6. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$403,956, \$389,043, and \$390,781 respectively, equal to the required contributions for each year.

Note 7. Risk Management

Independence Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

Each member's contributions to ISEBA fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$69,990.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 7. Risk Management (continued)

Independence Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$450,291 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 9. Deficit Balance

The Special Revenue, Management Levy Fund within the nonmajor governmental funds had a deficit balance of \$50,946 as of June 30, 2004.

## Required Supplementary Information

# INDEPENDENCE COMMUNITY SCHOOL DISTRICT

## Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Fund Required Supplementary Information Year Ended June 30, 2004

	Governmental Funds - Actual	Proprietary Fund - Enterprise - Actual	Total Actual	Budgeted Amounts Original and Final	Final to Actual Variance
<b>RECEIPTS:</b>					
Local sources	\$ 6,078,060	\$ 284,607	\$ 6,362,667	\$ 6,137,048	\$ 225,619
State sources	6,392,705	7,618	6,400,323	6,721,532	(321,209)
Federal sources	625,299	235,382	860,681	790,000	70,681
Total receipts	<u>13,096,064</u>	<u>527,607</u>	<u>13,623,671</u>	<u>13,648,580</u>	<u>(24,909)</u>
<b>DISBURSEMENTS:</b>					
Instruction	8,725,368	-	8,725,368	9,195,600	470,232
Support services	3,090,641	-	3,090,641	3,221,800	131,159
Non-instructional programs	4,220	562,863	567,083	505,000	(62,083)
Other expenditures	942,076	-	942,076	895,679	(46,397)
Total disbursements	<u>12,762,305</u>	<u>562,863</u>	<u>13,325,168</u>	<u>13,818,079</u>	<u>492,911</u>
Excess (deficiency) of receipts over (under) disbursements	333,759	(35,256)	298,503	(169,499)	468,002
Other financing sources, net	<u>3,145</u>	<u>-</u>	<u>3,145</u>	<u>-</u>	<u>3,145</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements	336,904	(35,256)	301,648	(169,499)	471,147
Balance beginning of year	<u>2,634,731</u>	<u>91,489</u>	<u>2,726,220</u>	<u>2,845,218</u>	<u>(118,998)</u>
Balance end of year	<u>\$ 2,971,635</u>	<u>\$ 56,233</u>	<u>\$ 3,027,868</u>	<u>\$ 2,675,719</u>	<u>\$ 352,149</u>

See accompanying independent auditor's report.

# INDEPENDENCE COMMUNITY SCHOOL DISTRICT

## Budgetary Comparison Schedule – Budget to GAAP Reconciliation Required Supplementary Information Year Ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 13,096,064	\$ (81,854)	\$ 13,014,210
Expenditures	12,762,305	134,739	12,897,044
Net	333,759	(216,593)	117,166
Other financing sources	3,145	-	3,145
Beginning fund balances	2,634,731	(1,079,261)	1,555,470
Ending fund balances	<u>\$ 2,971,635</u>	<u>\$ (1,295,854)</u>	<u>\$ 1,675,781</u>
	Proprietary Fund		
	Cash Basis	Accrual Adjust- ments	Accrual Basis
Revenues	\$ 527,607	\$ (200)	\$ 527,407
Expenses	562,863	2,750	565,613
Net	(35,256)	(2,950)	(38,206)
Beginning net assets	91,489	64,539	156,028
Ending net assets	<u>\$ 56,233</u>	<u>\$ 61,589</u>	<u>\$ 117,822</u>

See accompanying independent auditor's report.

## INDEPENDENCE COMMUNITY SCHOOL DISTRICT

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2004, disbursements in the non-instructional programs and other expenditures functional areas exceeded the amounts budgeted.

## Other Supplementary Information

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2004

	Special Revenue			
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service
Assets				
Cash and pooled investments	\$ 63,137	\$ 151,957	\$ 138,472	\$ 43,895
Receivables:				
Property tax:				
Current year	5,917	-	5,472	2,657
Succeeding year	216,512	-	187,029	80,438
Accrued interest	-	-	333	-
Due from other governments	-	-	-	-
Total assets	<u>\$ 285,566</u>	<u>\$ 151,957</u>	<u>\$ 331,306</u>	<u>\$ 126,990</u>
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ -	\$ 15,126	\$ -	\$ -
Deferred revenue:				
Succeeding year property tax	216,512	-	187,029	80,438
Early retirement payable	120,000	-	-	-
Total liabilities	<u>336,512</u>	<u>15,126</u>	<u>187,029</u>	<u>80,438</u>
Fund equity:				
Fund balances:				
Reserved for:				
Debt service	-	-	-	46,552
Unreserved:				
Undesignated	(50,946)	136,831	144,277	-
Total fund equity	<u>(50,946)</u>	<u>136,831</u>	<u>144,277</u>	<u>46,552</u>
Total liabilities and fund equity	<u>\$ 285,566</u>	<u>\$ 151,957</u>	<u>\$ 331,306</u>	<u>\$ 126,990</u>

See accompanying independent auditor's report.



<u>Capital Projects</u>	<u>Total</u>
\$ 359,682	\$ 757,143
-	14,046
-	483,979
-	333
<u>81,633</u>	<u>81,633</u>
<u>\$ 441,315</u>	<u>\$ 1,337,134</u>

\$ 70,709	\$ 85,835
-	483,979
-	120,000
<u>70,709</u>	<u>689,814</u>

-	46,552
<u>370,606</u>	<u>600,768</u>
<u>370,606</u>	<u>647,320</u>
<u>\$ 441,315</u>	<u>\$ 1,337,134</u>

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2004

	Special Revenue			
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service
Revenues:				
Local sources:				
Local tax	\$ 180,903	\$ -	\$ 210,453	\$ 112,499
Other	58	500,182	5,527	965
State sources	184	-	212	113
Federal sources	-	-	87,758	-
Total revenues	181,145	500,182	303,950	113,577
Expenditures:				
Current:				
Instruction:				
Regular instruction	158,923	-	-	-
Other instruction	-	477,123	-	-
Support services:				
Administration services	580	-	-	-
Operation and maintenance of plant services	84,179	-	-	-
Transportation services	16,310	-	53,222	-
Other expenditures:				
Facilities acquisition	-	-	259,217	-
Long term debt:				
Principal	-	-	-	95,000
Interest and fiscal charges	-	-	-	15,557
Total expenditures	259,992	477,123	312,439	110,557
Excess (deficiency) of revenues over (under) expenditures	(78,847)	23,059	(8,489)	3,020
Fund balances beginning of year	27,901	113,772	152,766	43,532
Fund balances end of year	<u>\$ (50,946)</u>	<u>\$ 136,831</u>	<u>\$ 144,277</u>	<u>\$ 46,552</u>

See accompanying independent auditor's report.

<u>Capital Projects</u>		<u>Total</u>	
\$	469,176	\$	973,031
	2,235		508,967
	-		509
	-		87,758
	<u>471,411</u>		<u>1,570,265</u>
	-		158,923
	-		477,123
	-		580
	-		84,179
	-		69,532
	100,805		360,022
	-		95,000
	-		15,557
	<u>100,805</u>		<u>1,260,916</u>
	370,606		309,349
	-		337,971
\$	<u><u>370,606</u></u>	\$	<u><u>647,320</u></u>

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
Year Ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Interest	\$ (7)	\$ 1,095	\$ 230	\$ 858
High School:				
AFS	1,059	1,687	1,118	1,628
Activity Tickets	365	(170)	-	195
Art Resale	6,352	6,822	6,420	6,754
Auto Restoration	(4,399)	100	5,750	(10,049)
A.V. Club	906	520	20	1,406
Band Resale	(252)	28,019	29,343	(1,576)
Band Trip	8,566	107,066	63,108	52,524
Buildings and Trades	139	2,000	1,334	805
Business/Marketing	431	-	-	431
Cheerleaders	994	15,990	15,863	1,121
Choir Trip	(9,523)	9,523	-	-
Class of:				
2001	-	-	(25)	25
2003	865	-	865	-
2004	536	2,961	3,007	490
2005	-	1,198	333	865
Coke	-	1,474	469	1,005
Color Guard	(1,043)	-	538	(1,581)
Concessions	-	21,513	21,550	(37)
Drama	1,064	234	427	871
Explore the World	723	29	-	752
French Club	1,546	2,379	1,603	2,322
French Trip	-	-	365	(365)
Fund Balance	249	848	40	1,057
General Athletics	3,233	124,414	127,776	(129)
Guidance Scholarship	817	256	131	942
Home Economics Resale	991	680	160	1,511
Industrial Arts	(4,532)	8,473	11,000	(7,059)
Letter Club	(111)	2,514	1,886	517
Library	491	757	-	1,248
Math Resale	6,054	7,535	10,844	2,745
Model U.N.	32	-	-	32
Music Rental Fees	827	315	-	1,142
Musical	671	4,361	4,892	140

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
Year Ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
High School (continued):				
National Honor Society	\$ 186	\$ 128	\$ 121	\$ 193
Newspaper	593	732	291	1,034
P.E. Resale	1,202	476	518	1,160
Pictures	1,568	753	1,445	876
Prom	593	4,355	4,206	742
Science Resale	430	67	282	215
Spanish Club	95	-	-	95
Speech	893	3,337	2,934	1,296
Student Council	3,551	17,440	14,916	6,075
Student Supplies	1,070	1,746	2,595	221
Vocal Music	4,858	5,903	3,827	6,934
Weight Equipment	60	1,000	406	654
Yearbook	19,187	19,672	48,041	(9,182)
Middle School:				
Art Resale	4,471	4	1,970	2,505
Book Fare	1,295	1,571	1,234	1,632
Capital Projects	7,583	-	-	7,583
Concessions	-	8,403	8,147	256
Eclipse/TAG	1,763	1,756	868	2,651
General Athletics	(655)	10,121	7,619	1,847
Industrial Arts	4,591	1,541	463	5,669
Instrumental Music	(9,429)	10,469	11,982	(10,942)
Library	1,724	5,352	6,200	876
Magazines	13,746	43,085	37,262	19,569
P.E. Resale	40	-	-	40
Pictures	1,772	745	97	2,420
S.A.T.	94	-	-	94
Social Studies	2,747	698	1,300	2,145
Staff Flowers	1,433	155	115	1,473
Student Council	(6,225)	1,415	(88)	(4,722)
Student Supplies	5,032	621	-	5,653
Vietor's Homeroom	1	-	-	1
Vocal Music	12	-	-	12
East Elementary:				
E.L.L.	6,259	1,994	3,314	4,939
Instrumental Music	185	243	389	39
Library	4,613	1,801	2,578	3,836
Pictures	3,699	713	1,341	3,071
Playground	1,020	-	-	1,020

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
Year Ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
West Elementary:				
Library	\$ 2,399	\$ 2,239	\$ 2,273	\$ 2,365
P.E. Resale	383	-	-	383
Pictures	4,292	5,470	5,253	4,509
Student Council	976	1,528	2,509	(5)
South Elementary:				
E.L.L.	2,099	1,113	2,786	426
Library	455	934	670	719
Pictures	470	2,727	1,218	1,979
Independence P.T.A.s	5,597	4,420	6,132	3,885
Intrafund Transfers	-	(17,138)	(17,138)	-
Total	\$ 113,772	\$ 500,182	\$ 477,123	\$ 136,831

See accompanying independent auditor's report.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUND  
 Year Ended June 30, 2004

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	\$ 26	\$ 4,830	\$ 3,754	\$ 1,102
Accounts receivable	-	88	-	88
Total assets	\$ 26	\$ 4,918	\$ 3,754	\$ 1,190
Liabilities				
Other payables	\$ 26	\$ 4,918	\$ 3,754	\$ 1,190

See accompanying independent auditor's report.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS  
FOR THE LAST FOUR YEARS

	Modified Accrual Basis Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 4,467,364	\$ 4,000,592	\$ 3,744,883	\$ 3,497,093
Tuition	640,397	749,227	921,262	823,463
Other	603,915	538,604	537,907	742,341
Intermediate sources	-	-	-	12,665
State sources	6,382,559	6,493,857	6,428,492	6,763,518
Federal sources	919,975	513,828	485,192	492,036
Total revenues	<u>\$ 13,014,210</u>	<u>\$ 12,296,108</u>	<u>\$ 12,117,736</u>	<u>\$ 12,331,116</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 5,379,437	\$ 5,157,535	\$ 5,396,416	\$ 5,222,230
Special instruction	2,371,803	2,171,248	2,048,489	1,908,389
Other instruction	1,149,732	1,045,886	1,077,102	1,257,419
Support services:				
Student services	357,768	335,202	314,852	336,966
Instructional staff services	330,864	291,618	271,245	280,538
Administration services	1,023,851	1,010,558	1,046,219	1,029,161
Operation and maintenance of plant services	986,309	996,777	818,692	947,028
Transportation services	372,190	401,680	279,530	359,405
Non-instructional programs	4,220	4,594	4,653	3,765
Other expenditures:				
Facilities acquisition	360,022	230,843	101,319	176,931
Long-term debt:				
Principal	95,000	105,000	105,000	154,776
Interest and fiscal charges	15,557	38,820	37,475	46,310
AEA flowthrough	450,291	480,925	482,597	506,511
Total expenditures	<u>\$ 12,897,044</u>	<u>\$ 12,270,686</u>	<u>\$ 11,983,589</u>	<u>\$ 12,229,429</u>

See accompanying independent auditor's report.



INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2004

Grantor / Program	CFDA Number	Grant Number	Expenditures
Direct:			
U. S. Department of Education:			
Safe and Drug Free Schools and Communities National Programs	84.184	S184B020418	\$ <u>136,577</u>
Indirect:			
U. S. Department of Agriculture:			
Iowa Department of Education:			
Food Donation (non-cash)	10.550	FY 04	<u>50,719</u>
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 04	25,828
National School Lunch Program	10.555	FY 04	158,325
School Milk Program for Children	10.556	FY 04	510
			<u>184,663</u>
U. S. Department of Education:			
Iowa Department of Education:			
Title 1 Grants to Local Educational Agencies	84.010	3105G	215,814
Title 1 Grants to Local Educational Agencies	84.010	3105D	25,266
			<u>241,080</u>
Grants for State Assessments and Related Activities	84.369	FY 04	<u>9,090</u>
Innovative Education Program Strategies	84.298	FY 04	<u>8,201</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 04	<u>11,549</u>
School Renovation Grants	84.352	FY 04	<u>87,758</u>
Improving Teacher Quality State Grants	84.367	FY 04	<u>70,103</u>
Area Education Agency 7:			
Special Education - Grants to States	84.027	FY 04	<u>62,298</u>
Vocational Education - Basic Grants to States	84.048	FY 04	<u>15,183</u>
Hawkeye Community College:			
Tech-Prep Education	84.243	FY 04	<u>1,335</u>
Total			\$ <u><u>878,556</u></u>

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2004

Basis of Presentation –

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Independence Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Education of  
Independence Community School District:

We have audited the financial statements of Independence Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 20, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Independence Community School District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about Independence Community School District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items IV-B-04, IV-K-04 and IV-L-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Independence Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable conditions have been resolved except for items II-A-04 and II-B-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Independence Community School District and other parties to whom Independence Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Independence Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Oskaloosa, Iowa  
August 20, 2004

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE

To the Board of Education of  
Independence Community School District:

Compliance

We have audited the compliance of Independence Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Independence Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Independence Community School District's management. Our responsibility is to express an opinion on Independence Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Independence Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Independence Community School District's compliance with those requirements.

In our opinion, Independence Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Independence Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Independence Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Independence Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Independence Community School District and other parties to whom Independence Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Oskaloosa, Iowa  
August 20, 2004

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2004

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - CFDA Number 84.010 – Title I Grants to Local Educational Agencies
  - CFDA Number 84.352 – School Renovation Grants
  - Clustered programs:
    - CFDA Number 10.553 – School Breakfast Program
    - CFDA Number 10.555 – National School Lunch Program
    - CFDA Number 10.556 – Special Milk Program for Children
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Independence Community School District did not qualify a low-risk auditee.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2004

Part II: Findings Related to the General Purpose Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

- II-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts preparation, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person. Also, the recording, preparing and signing of checks were all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will continue to review our procedures and implement additional controls where possible.

Conclusion – Response accepted.

- II-B-04 Disbursements – Out of forty disbursements tested, one was not supported by an invoice or receipt. This disbursement was a General Fund bill.

Recommendation – All disbursements should be adequately supported by an invoice, receipt or other written documentation.

Response – We will make sure that all future disbursements are properly supported.

Conclusion – Response accepted.



INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2004

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

No matters were reported.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2004

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-04 Official Depositories – Official depositories have been approved by the District. The maximum deposit amount approved for Bank Iowa was exceeded by \$801,106 during the year ended June 30, 2004.

Recommendation – A new resolution should be approved in amounts sufficient to cover anticipated deposits for all depositories.

Response – We will approve a new resolution and document such in our board minutes.

Conclusion – Response accepted.

- IV-B-04 Certified Budget – Disbursements for the year ended June 30, 2004, exceeded the amounts budgeted in the non-instructional programs and other expenditures functional areas.

Recommendation – The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will amend our budget before disbursements exceed the budget.

Conclusion – Response accepted.

- IV-C-04 Questionable Expenditures – No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- IV-D-04 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- IV-E-04 Business Transactions – We noted no business transactions between the District and District officials or employees.

- IV-F-04 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- IV-G-04 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted. However, we noted that not all of the Board minutes were signed.

Recommendation – All Board minutes should be properly signed.

Response – We will have all Board minutes properly signed.

Conclusion – Response accepted.

- IV-H-04 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2004

Part IV: Other Findings Related to Statutory Reporting (continued):

- IV-I-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District’s investment policy were noted.
- IV-J-04 Certified Annual Report – The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- IV-K-04 Financial Condition – The Special Revenue, Management Levy Fund has a negative fund balance of \$50,946 as of June 30, 2004. In addition, we noted that the Special Revenue, Student Activity Fund had several deficit balances within the group of single activity accounts.

Recommendation – The District needs to explore alternatives to restore the Special Revenue, Management Levy Fund to a sound financial condition. The District also needs to monitor the activity accounts more closely and investigate alternatives to eliminate the deficit balances.

Response – We increased the Management tax levy for the year ending June 30, 2005 and are working on the Student Activity Fund deficit accounts.

Conclusion – Response accepted.

- IV-L-04 Student Activity Fund – We noted transactions being recorded through the Special Revenue, Student Activity Fund such as resale accounts and scholarships that would more appropriately be accounted for in the General Fund or Trust and Agency Funds.

Recommendation – The Student Activity Fund is to be used to account for money received from student related activities such as admissions, activity fees, student dues, student fundraising events, or other student related cocurricular activities as stated in the administrative rules of the Department of Education.

Response – We will review these accounts and transfer items to more appropriate funds.

Conclusion – Response accepted.

- IV-M-04 Additional Compensation – We noted two employees who received payments for extra-curricular activities that did not go through the District’s payroll process.

Recommendation – The District should ensure that payments to employees from the Special Revenue, Student Activity Fund for services performed be treated as additional compensation and, accordingly, withhold the appropriate taxes as required by the Internal Revenue Service and the Iowa Department of Revenue and Finance.

Response – We will take the necessary steps to correct this situation.

Conclusion – Response accepted.

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